

Re: Second Draft of NERC 2022 Business Plan and Budget Posted for Stakeholder Review and Comment

Date: July 15, 2021

On May 25, 2021, NERC posted the first drafts of the 2022 Business Plan and Budgets (BP&Bs) for NERC, the Regional Entities, and the Western Interconnection Regional Advisory Body (WIRAB). The NERC Board of Trustees' (Board's) Finance and Audit Committee (FAC) held a webinar on June 3, 2021, to review these budgets, and written comments on NERC's BP&B were requested by June 18, 2021. NERC received six comment submissions, which are posted on NERC's website. Generally, comments acknowledged NERC's budgetary emphasis on addressing priority bulk power system (BPS) risks while also expressing concerns with the 2022 budget and assessment increases in light of the current fiscal realities facing the industry. A summary of the individual comments and NERC's responses are provided in a management response letter, which is also posted on NERC's website.

From supply chain compromise to several cyber breaches and cold and record heat weather-related events, there are immediate needs to continue to reliably and securely support the BPS. NERC and the Regional Entities, in our role as the Electric Reliability Organization (ERO), are accountable for assuring this mission. With due consideration to the economic uncertainties facing the industry, we wish to underscore the extraordinary costs to nearly 400 million North American citizens if adequate and preventive measures are not taken in response to recent risks threatening BPS reliability and security. After careful review of the comments and discussions with the FAC and trade organization representatives, the second draft of NERC's 2022 BP&B continues to reflect immediate needs as well as a measured return to items deferred in 2021 to provide financial relief to industry during the pandemic:

- Adequate resources (personnel, contract support, and data management tools) to focus on priority risks to BPS reliability and security, including cyber security and supply chain compromises, as well as materializing concerns related to energy fuel assurance and weatherization;
- NERC IT security, software licenses and support, and planned IT equipment replacements;
- Strategic development to support an evolving workforce;
- A partial return to in-person meetings and related travel; and
- Support in response to FERC-mandated Regional Entity audits and for an ERO IT security audit.

As reflected in the first draft, the areas above are contributing to an increased demand on the NERC 2022 budget, especially for adequate resources to meet work plan priorities and important strategic objectives. In the first draft, NERC proposed a budget increase of 7.0% and an assessment increase of 9.9% over 2021. For the second draft of its 2022 BP&B, we are pleased to report that the budget and assessment increases have been lowered to a 6.2% budget and an 8.9% assessment increase as a result of additional refining of expenses and revised assumptions for DC office lease costs. These reductions were achieved without the use of reserves or additional capital financing in order to avoid (1) the rebound effect on 2023 assessments if reserves are used in 2022 and (2) the impact of debt service on future year budget increases. Additionally, we are continuing to explore lease options for our Atlanta office, and

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believe it would be prudent to maintain adequate reserve levels to accommodate potential one-time costs associated with any Atlanta office lease change decisions.

In support of the proposed 2022 budget, assessment, and full-time equivalents (FTEs), NERC reiterates the following key historical information and considerations:

- Average annual total budgeted FTE growth since 2013, including proposed 2022 FTEs, is 2.1%.
- The total number of staff, excluding the Electricity Information Sharing and Analysis Center (E-ISAC), Cybersecurity Risk Information Sharing Program (CRISP), IT, and Reliability Assessment and Performance Analysis (RAPA), is less in 2022 than in 2013.
- Total budget, assessment, and FTEs are lower than pre-pandemic projections for 2022 in the 2020 BP&B, including absorbing approximately \$1.4M in annual costs for the ERO Secure Evidence Locker (SEL).
- NERC's two-year (2021 and 2022) average budget and assessment increase is 3.2% and 4.5%, respectively.

The second draft of the 2022 BP&B also includes preliminary projections for 2023 and 2024, which continue to reflect a measured return to pre-COVID-19 planning assumptions. While NERC was able to reduce certain human resource and technology investments in the 2020 and 2021 periods, this was a deferral of short-term cost impacts and not an elimination of these strategies. Since the bulk of NERC's budget consists of people and technology, continued investments in human resources and software tools are necessary to support NERC's strategic goals and mission. NERC's current 2023 budget projection is \$92.5M (5.1% increase over 2022) and its assessment projection is \$82.6M (5.5% increase over 2022). In 2024, the budget projection is \$97.2M (5.1% increase over 2023) and the assessment projection is \$86.9M (5.1% increase over 2023). New DC office lease savings continue over the lease term, and there is currently no changed assumption for the Atlanta office lease while options are being explored.

As with all future year projections, these numbers only reflect calculations based on management's preliminary discussions (i.e., the projections are not Board-endorsed or approved) and the assessment projections do not consider the use of reserve funds to help mitigate assessment increases, a decision that would be made during the 2023 and 2024 BP&B processes. We are, however, quite sensitive to the economic uncertainties facing the sector as we navigate and eventually emerge from the COVID-19 pandemic. We commit to thoughtfully balancing fiscal concerns with the very real evolution of BPS risk into different arenas, and will ensure that our budgets for 2023 and 2024 reflect activities that focus on the highest risks to reliability and security. We also commit to judicious use of reserves to manage assessment increases and will continue to assess our program areas and prioritize initiatives.

NERC has posted the second draft of its 2022 BP&B for comment on NERC's website along with the final 2022 BP&Bs for each Regional Entity and WIRAB. Please join us for a webinar hosted by the FAC on Thursday, July 22, 2021, from 2:00–3:30 p.m. Eastern where we will review these BP&Bs. Comments are requested on the second draft of NERC's 2022 BP&B by **July 28, 2021**, and should be directed to the attention of [Erika Chanzas](#). We look forward to your feedback.

Sincerely,



Andy Sharp
Vice President and Chief Financial Officer